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PUBLIC LAW 184-2015, HEA 1264

Beginning July 1, 2016, requires the following: (1) The legislative body of a political subdivision to ensure appropriate training of personnel concerning the political subdivision's internal control system. (2) The fiscal officer of a political subdivision to certify annually that certain internal controls and procedures are in place and that personnel have received training in the internal controls and procedures. (3) The state board of accounts (board) to issue a comment in its examination report if internal controls and procedures are not adopted or personnel have not received training. (4) The board to report the uncorrected violations to the department of local government finance (DLGF). (5) The DLGF may not approve the political subdivision's budget or supplemental appropriations if the political subdivision fails to adopt internal controls and procedures or train personnel. (6) Certain reporting and follow up related to a report of misappropriation of political subdivision funds. (7) Board action for material variances, losses, shortages, or thefts. Requires the board to develop or designate personnel training materials not later than November 1, 2015. Effective July 1, 2016, provides for restitution related to attorney general proceedings. Allows the executive or member of the fiscal body of a city, town, or township (unit) to serve as a volunteer firefighter for a volunteer fire department or a fire department that provides fire protection services to the unit. Requires a fiscal body member of a unit who is also a volunteer firefighter for a fire department providing fire protection services to the unit to abstain from voting on the unit's budget and tax levies. Provides that if at least a majority of the members of the unit abstain from voting on the budget, the most recent annual appropriations and annual tax levy are continued for the ensuing budget year. Provides that the executive of the unit may petition the county fiscal body for an increase in the budget or for additional appropriations.

IC 5-11-1-27

(e) – requires the SBOA to define the minimum level of internal control in a Accounting and Uniform Compliance Guidelines Manual.

IC 5-11-1-27 CONT.

(f) – requires the SBOA to develop training materials to implement statute.

Approved Personnel Training Materials:

Uniform Internal Control Standards for Indiana Political Subdivisions
Examples of Internal Control Procedures
Case Studies

SBOA Webinars identified as internal controls

SBOA presentations on internal controls at conferences

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control-Integrated Framework as well as other related materials by COSO

Standards for Internal Control in the Federal Government (Green Book) issued by the Comptroller General of the United States

Other materials which have been submitted by units identified as approved by SBOA on the SBOA website

IC 5-11-1-27 CONT.

- (g) requires after June 30, 2016, that all Townships shall develop and adopt internal controls, and provide training for all personnel.
- (h) requires after June 30, 2016, that all Trustees will have to certify internal controls have been developed and adopted, and that all personnel have received training.

Certification will be required to be provided on the Gateway Annual Report that is filed in compliance with IC 5-11-1-4 starting with reports filed January 2017.

IC 5-11-1-27 CONT.

(i) – requires the SBOA to include an Examination Result and Comment in all reports if we find a Township has not developed or adopted internal controls, or if we find training has not been provided to personnel. If during future examinations we find the Township has still not developed, adopted, and trained on internal controls, then the Township has 60 days to correct the problem or the SBOA will be required to report it to the DLGF.

We anticipate that for examinations with periods that end after June 30, 2016, you will be required to present your adopted internal controls (policies and procedures) and documentation of training provided to required personnel.

SBOA DEFINED MINIMUM LEVEL OF INTERNAL CONTROLS

Internal controls help entities run their operations efficiently and effectively; help entities report reliable information about their operations; and they help entities comply with applicable laws and regulations.

The SBOA plans to provide the "Uniform Internal Control Standards for Indiana Political Subdivisions". Much of the SBOA standards follow the format of the GAO's "Standards for Internal Control in the Federal Government" (Green Book) www.gao.gov/greenbook.

The basic premise for using the Green Book is that you identify an objective, you design a control, you put the control in place, and you will achieve the objective.

There are five components of internal control that are broken down into 17 separate principles.

LARGE UNITS VS SMALL UNITS

Pg. 18 of US GAO Green Book

The 17 principles apply to both large and small entities. However, smaller entities may have different implementation approaches than larger entities. Smaller entities typically have unique advantages, which can contribute to an effective internal control system. These may include a higher level of involvement by management in operational processes and direct interaction with personnel. Smaller entities may find informal staff meetings effective for communicating quality information, whereas larger entities may need more formal mechanisms—such as written reports, intranet portals, or periodic formal meetings—to communicate with the organization.

A smaller entity, however, faces greater challenges in segregating duties because of its concentration of responsibilities and authorities in the organizational structure. Management, however, can respond to this increased risk through the design of the internal control system, such as by adding additional levels of review for key operational processes, reviewing randomly selected transactions and their supporting documentation, taking periodic asset counts, or checking supervisor reconciliations.

CONTROL ENVIRONMENT

The foundation for an internal control system. It provides the discipline and structure to help an entity to achieve its objectives. It influences how objectives are defined and how control activities are structured. The oversight body and management establish and maintain an environment throughout the entity that sets a positive attitude toward internal control.

- 1. The oversight body and management should demonstrate a commitment to integrity and ethical values.
 - 2. The oversight body should oversee the entity's internal control system.
- 3. Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives.
- 4. Management should demonstrate a commitment to recruit, develop, and retain competent individuals.
- 5. Management should evaluate performance and hold individuals accountable for their internal control responsibilities.

RISK ASSESSMENT

Assesses the risks facing the entity as it seeks to achieve its objectives. This assessment provides the basis for developing appropriate risk responses. Management assesses the risks the entity faces from both external and internal sources.

- 6. Management should define objectives clearly to enable the identification of risks and define risk tolerances.
- 7. Management should identify, analyze, and respond to risks related to achieving the defined objectives.
- 8. Management should consider the potential for fraud when identifying, analyzing, and responding to risks.
- 9. Management should identify, analyze and respond to significant changes that could impact the internal control system.

CONTROL ACTIVITIES

The actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the entity's information system.

- 10. Management should design control activities to achieve objectives and respond to risks.
- 11. Management should design the entity's information system and related control activities to achieve objectives and respond to risks.
 - 12. Management should implement control activities through policies.

INFORMATION AND COMMUNICATION

The quality information management and personnel communicate and use to support the internal control system.

- 13. Management should use quality information to achieve entity's objectives.
- 14. Management should internally communicate the necessary quality information to achieve the entity's objectives.
- 15. Management should externally communicate the necessary quality information to achieve the entity's objectives.

MONITORING

Activities management establishes and operates to assess the quality of performance over time and promptly resolve the findings of audits and other reviews.

- 16. Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.
- 17. Management should remediate identified internal control deficiencies on a timely basis.

DOCUMENTATION OF INTERNAL CONTROL SYSTEM

Pg. 71 of US GAO Green Book

Documentation is a necessary part of an effective internal control system. The level and nature of documentation vary based on the size of the entity and the complexity of the operational processes the entity performs. Documentation is required to demonstrate the design, implementation, and operating effectiveness of an entity's internal control system. The Green Book includes minimum documentation requirements as follows:

- If management determines that a principle is not relevant, management supports that determination with documentation that includes the rationale of how, in the absence of that principle, the associated component could be designed, implemented, and operated effectively.
 - Management develops and maintains documentation of its internal control system.
- Management documents in policies the internal control responsibilities of the organization.
- Management evaluates and documents the results of ongoing monitoring and separate evaluations to identify internal control issues.
- Management evaluates and documents internal control issues and determines appropriate corrective actions for internal control deficiencies on a timely basis.
- * Management completes and documents corrective actions to remediate internal control deficiencies on a timely basis.